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UNITHERM STAINLESS STEEL

USA BUSINESS PLAN

Dated: August 1994

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1. INTRODUCTION

Unitherm Stainless Steel Limited ("the company") is a UK manufacturer of a range of food preparation equipment and machinery for the food industry.

The company has developed a wide range of innovative food machinery and based on this inherent strength has expanded considerably since it was founded in February 1985.

The company is controlled by its founders, David and Amanda Howard with 3i Plc (the largest UK venture capitalist) owning 20% of the share capital.

From its initial supply of fabricated stainless steel and aluminium products for the food industry it has expanded its product range to include conveyor systems, processing equipment, drainage systems and cooking equipment.

During 1992 the company's management considered that the major opportunity for the company was to establish a US operation to exploit the significant market opportunities in the largest consumer market in the world. In 1993, sales of \$1.7m were achieved in the US with machines manufactured at the Trafford Park site.

In order to fully capitalise on the US market it is felt essential to establish a manufacturing plant in the US. This will reduce the delivery lead times and eliminate the freight and duty charges incurred in importing from the UK.

The directors have therefore prepared this business plan to identify the level of funding required over the next five years for the setting up of a US manufacturing plant.

This report has been prepared solely for the use of the company. None of the contents may be disclosed to parties other than the company without the prior written consent of a member of the Board of Directors.

The financial information contained in this report has been prepared by the company and no audit or verification work has been carried out. The directors have confirmed that they have taken all reasonable steps to ensure that the factual information is correct and that the assumptions contained in this report are reasonable in the light of the information currently available.

2. EXECUTIVE SUMMARY

Background Information

The business was founded by David and Amanda Howard (controlling shareholders) in 1985 supplying fabricated stainless steel and aluminium products for the food industry.

The business expanded rapidly and now supplies a wide range of food handling equipment, conveyor systems, processing equipment, drainage systems and cooking equipment predominantly for the food processing industry.

The company operates from three locations:

Trafford Park, Manchester (20,000 sq ft)
Wisbech, Cambridgeshire (15,000 sq ft)
Chicago, USA

The Chicago operation is a sales office and demonstration facility - no manufacturing is carried out.

The turnover of the company has increased to almost \$4.0m in the year ended 31 January 1994 and employs over 60 people at the three locations.

In November 1992, David and Amanda Howard moved to Chicago, USA to set up a US sales operation as it was felt that the US market had the most potential of all the overseas markets. This move proved successful with sales of over \$1.7m in the financial year.

To enable the UK company to continue its rapid expansion in the UK it was recognised that additional equity finance was required. Hence, in 1994 the largest UK venture capitalist 3i Plc invested £750,000 in the company in exchange for a 20% shareholding.

The key strengths of the company are considered to be its innovative products, which are competitively priced, and the design/manufacturing flexibility to tailor equipment to meet the customer's specific requirements. The recent expansion has established a management team with key individual strengths and a willingness to provide solutions by identifying new applications for its products.

The management of the company has increased over the years in line with the increase in business and now includes a technical director, finance director, production manager and sales manager.

The US market has been identified as the most important area of growth for the company in the medium term and the directors aim to significantly increase the level of sales to the US over the next year.

However, to take full advantage of the US market it is felt essential to set up a manufacturing base in the US. This will reduce the lead time between order and delivery, an important element in winning orders in a competitive environment. In addition, the cost of freight charges and duty incurred from the import of the equipment into the US from the UK will be eliminated.

Structure and funding

The operations of the US plant will be formed into a US incorporated company which will be a wholly owned subsidiary of the UK company.

The following funding has been identified as the requirement for the setting up of a manufacturing plant in the US:

		\$000
Cash injection from UK holding company	250	
Inventory supplied by UK company		250
External term loan		1,000 -
		<hr/>
		1,500
		<hr/>

The money from the UK holding company will be used to fund the working capital requirements and the term loan will be used to fund the purchase of capital equipment.

In addition to the above a line of credit of \$100,000 will be required in the first year to fund the working capital requirements.

It has been assumed that the factory will be provided at a nominal rent and that term loans of \$1m will be raised for the purchase of the capital equipment.

Financial information

The forecast financial statements for the project for the 5 years ended 31 January 2000 have been prepared and these have been included in the appendices.

The forecast trading results may be summarised as follows:

	<u>Years ended 31 January</u>				
	1996	1997	1998	1999	2000
	\$000	\$000	\$000	\$000	\$000
SALES	<u>1,980</u>	<u>3,366</u>	<u>4,376</u>	<u>5,689</u>	<u>7,395</u>
OPERATING INCOME	(103)	170	401	734	1,206
Interest	62	80	79	72	51
INCOME BEFORE TAXES	<u>(165)</u>	<u>90</u>	<u>322</u>	<u>662</u>	<u>1,155</u>

The summarised financial positions for the five years ended 31 January 2000 are as follows:

	<u>As at 31 January</u>				
	1996	1997	1998	1999	2000
	\$000	\$000	\$000	\$000	\$000
Cash	(8)	29	152	585	1,327
Accounts Receivable	248	280	366	476	618
Inventory	555	700	834	1,010	1,238
Property & Equipment	837	819	822	681	510
	<u>1,632</u>	<u>1,828</u>	<u>2,174</u>	<u>2,752</u>	<u>3,693</u>
Current Liabilities	239	377	513	661	851
Amount due to holding company	500	500	500	500	500
Long term loan	1,000	1,000	1,000	1,000	1,000
Shareholders equity	(107)	(49)	161	591	1,342
	<u>1,632</u>	<u>1,828</u>	<u>2,174</u>	<u>2,752</u>	<u>3,693</u>

The capital expenditure requirement for the new factory is estimated at \$1.0m in the first year with \$0.9m of this being plant & machinery. A specific list of the plant & machinery required is given in Appendix I.

The forecasts show that the company's line of credit requirements peaks at \$50,000 in October 1995. This requirement decreases after this point and the bank balance becomes positive during 1996 and remains positive thereafter.

3. THE COMPANY AND ITS HISTORY

The business was established in 1985 as a partnership by David and Amanda Howard in Rochdale, Lancashire. The business was then incorporated and began trading under the name of Unitherm Stainless Steel Limited in February 1988 with David and Amanda Howard becoming the directors and shareholders owning 75% and 25% of the shares, respectively.

The original product range was limited to stainless steel and aluminium tables and racks for food factories which required simple fabrication work with no detailed design or technical manufacturing expertise. Sub-contractors were used for equipment sold outside the companies manufacturing capability or capacity.

Unitherm quickly established a reputation for quality products at competitive prices and short delivery. As the business grew and more manufacturing machinery was purchased the product range increased. Sink units and drainage systems were added to the product range and a greater foothold within the market achieved. The business moved to larger premises purchased in Bacup, Lancashire in October 1989 to cope with the increased turnover.

In order to cover the UK more effectively it was decided that another manufacturing unit in a different part of the country was required. Hence, in February 1990 Unitherm acquired a long term lease on a factory in Wisbech, Cambridgeshire. The location was geographically positioned to service the market in London and the south east of England, but more importantly was placed on the door-step of a large customer, Baron Meats, which forms part of the Hazelwood Food Group. John McAree was brought in to manage this operation and became a director of the company in June 1991.

David could see that conveyor systems and food machinery such as ovens were a growth area where profitable margins could be achieved. The technical expertise for expansion and development in this area came from Mark Parkinson who joined the company in 1990 to set-up a technical design department. Mark quickly developed a strong understanding of the technical aspects of the food industry and became the technical director in November 1991.

The company continued to grow at a rapid rate with turnover increasing from \$0.8m in the year ended 31 January 1989 to \$2.3m in the year ended 31 January 1991. This rate of expansion created the need for larger premises and so in November 1991 the manufacturing unit was moved from Bacup to a much more suitable factory in Trafford Park, Manchester.

This move allowed the company's turnover to expand further with the turnover for the year ended 31 January 1993 increasing to \$3.5m.

The continued expansion led to the need for greater control over production and the management information systems. To resolve this Paul Bowker (accounts) joined the company in September 1992 and was appointed finance director in April 1993 and Sam Lythgoe (production manager) joined in 1993.

During 1992 the company's management decided that to further expand and capitalise on the products manufactured by the company it would be necessary to look overseas. The US market was felt to have the most potential and so in November 1992 David and Amanda Howard moved to Chicago to generate sales in the US. A separate US company (Unitherm Stainless Steel Inc) was formed to sell the products of the UK company into the US market.

In order to penetrate the US market approximately \$250,000 of equipment manufactured in the UK was sent to Chicago to set up a Test Kitchen to enable potential customers to view and test the equipment. This move proved to be successful with \$1.7m of sales in the first financial year ended 31 January 1994.

To enable the UK company to continue its rapid expansion it was recognised that additional equity finance would be required. Hence, in 1994, the largest UK venture capitalist 3i Plc invested £750,000 in the company in exchange for a 20% shareholding. The current shareholders are:

	%
DP Howard	59.4
AJ Howard	19.4
3i Plc	20.0
M Parkinson	0.6
J McAree	0.6
	<hr/>
	100.0
	<hr/>

A summary of the historical results of the company for the years ended 31 January are as follows:

	1990	1991	1992	1993	1994
	\$000	\$000	\$000	\$000	\$000
Sales	1,314	2,298	2,313	3,477	3,898
Gross Profit	525	896	917	1,367	1,054
Profit before tax	110	183	126	224	61
Number employed	13	31	43	55	65

NB The profit before tax for 1990 included a \$90,000 pension contribution which was not repeated in the following years.
The 1994 profit before tax excludes the costs incurred in setting up the US operation.

4. MANAGEMENT

The management team has been progressively recruited since the company was formed. The key management personnel are as follows:

David Howard - managing director & Amanda Howard - PA (age 32 & 29)

David and Amanda began the business in 1985 and were solely responsible for the success of the company in the early years. Both have an in-depth knowledge of the food industry. David as managing director is responsible for the overall strategy and direction of the business and is also responsible for the North American sales operation.

John McAree - managing director of Wisbech unit (age 43)

John joined Unitherm in February 1990 with complete responsibility for managing the Wisbech site. Under his management the sales of the Wisbech site have grown to \$1m in under three years. Prior to joining Unitherm he gained considerable sales experience in a variety of industries.

Mark Parkinson - technical director (age 35)

Mark joined Unitherm in February 1990 with responsibility for all technical aspects of the company and has been instrumental in the design and development of the current product range.

Paul Bowker - finance director (age 31)

Paul joined Unitherm in September 1992 and has implemented the computerised management information systems. Paul qualified as a Chartered Accountant and spent six years with Price Waterhouse before moving to a small accountancy practice as an audit partner with Unitherm as a client. After two years he joined Unitherm as the accountant.

Simon Brown - UK sales manager (age 32)

Simon joined Unitherm in January 1994 as sales manager with responsibility for UK sales. He is a qualified engineer with over ten years experience in sales. Simon spent the last four years selling mechanical handling and food processing equipment achieving annual sales of over \$2m.

Colin Turner - European sales manager (age 43)

Colin joined Unitherm in 1994 with special responsibility for European sales. Colin has over 20 years experience in the food industry and for the last eight years was the Managing Director of SFK (UK) Limited which specialised in conveyors and mechanical handling equipment for the meat industry.

Sam Lythgoe - production manager

Sam joined Unitherm in December 1993 with responsibility for all aspects of production control. Sam has over twenty years experience in production management in several industries. He also spent seven years with the department of employment giving training instruction to a wide variety of companies.

5. PRODUCTION AND OPERATIONS

The company manufactures a wide range of stainless steel quipment and machin ry pr dominantly for th food industry. Its product range includes the following:

Food handling equipment - eg tables, sinks, racks, sterilisers, trays.

Conveyor systems - eg belt conveyors, product transfers, rotary tables.

Drainage systems - eg drainage channels, floor gulleys, grating covers.

Processing equipment - eg pasta cutters, pizza cutters, enrobers.

Cooking equipment - eg steam cookers, cook chill systems, convection ovens.

One of the company's products is the Rapidflow II (a convection oven) which has significant advantages over competitors products and can therefore be sold at a premium price. The Rapidflow sells for approximately \$300,000 with a production cost of around \$120,000. This product has been developed over the last few years and is therefore relatively new in the market.

The majority of products are designed specifically for the customers requirements. This requires a highly qualified design department using computer aided design (CAD) equipment. Over \$50,000 was invested in CAD equipment during 1992 to bring the department technologically up-to-date and the design department numbers were increased to cope with the increase in turnover.

The US market is being offered and sold existing technology developed for UK clients.

The production process requires skilled and semi-skilled labour, mainly welders and sheet metal workers, to fabricate the products from stainless steel and aluminium.

The company operates from two manufacturing sites in the UK (20,000 sq ft in Trafford Park, Manchester and 15,000 sq ft in Wisbech, Cambridgeshire) and a sales office and test kitchen in Chicago, USA.

The total number of employees is currently 65.

6. MARKET

The demand for food preparation equipment and machinery in the UK has grown substantially over the last few years as a result of:

- i) the rapid growth in the UK food industry over the last decade due to a increasing numbers of supermarket outlets which have demanded an ever wider variety of pre-prepared meals and raw products of the highest quality.
- ii) the introduction of EC health and hygiene regulations following the UK joining the EEC has had a major impact on the food equipment market as the regulations insist that all machinery and preparation equipment be manufactured in stainless steel or aluminium.

As a result of these strict health and hygiene regulations the company has developed a range of machinery that is technically more modern and efficient than that currently available in the US. This, with the fact that all the company's machinery has USDA approval, has enabled the company to gain a foothold in the US market within a very short period of time.

Sales in the first year of trade to the US (year ended 31 January 1994) totalled \$1.7m and the sales for the current year are expected to be well over \$2m. This level of sales has been achieved with limited staff in the US and no US manufacturing base.

The principle US customers last year were as follows:

	\$000
Devault Foods	285
Hatfield	417
Tyson Foods Inc.	165
Kellogs	70
Thorn Apple Valley Inc.	723

The directors consider that with a US manufacturing base and an increased number of US based sales staff the level of sales will increase substantially.

7. FINANCE

Structur and funding

The operations of th US plant will be formed into a US incorp rated company which will be a wholly owned subsidiary of the UK company.

For the purposes of this forecast the funding of the project has been assumed to be as follows:

	\$
	000
Cash injection from UK holding	250
Inventory supplied by UK company	250
External term loan	1,000
	<hr/>
	1,500
	<hr/>

The money from the UK holding company will be used to fund the working capital requirements and the term loan will be used to fund the purchase of capital equipment.

In addition to the above a line of credit of \$100,000 will be required in the first year to fund the working capital requirements.

It has been assumed that the factory will be provided by Ponca City Economic Development Foundation Inc at a nominal rent, as previously agreed, and that the term loan for the purchase of the capital equipment will be provided by local or State banks.

Forecast trading results for the five years ended 31 January 2000

The financial forecasts have been prepared on the basis that the US manufacturing plant is a separate legal entity. Hence, the forecasts do not include the UK holding company or US subsidiary figures.

For simplicity it has been assumed that the US plant will begin operation at the beginning of the next financial year.

We attach at Appendix II and III the monthly forecast profit and loss accounts for the year ended 31 January 1996 and the forecast profit and loss accounts for the five years ended 31 January 2000, respectively. The underlying bases and assumptions are set out in Appendix VIII.

A summary of the forecasts for the five years ended 31st January 2000
as follows:

	Years ended 31 January				
	1996	1997	1998	1999	2000
	\$000	\$000	\$000	\$000	\$000
SALES	1,980	3,366	4,376	5,689	7,395
GROSS PROFIT	693	1,178	1,532	1,991	2,588
Depreciation	173	218	262	301	331
Other operating expenses	623	790	869	956	1,051
OPERATING INCOME	(103)	170	401	734	1,206
Interest	62	80	79	72	51
INCOME BEFORE TAXES	(165)	90	322	662	1,155

The turnover for the year to 31 January 1996 is projected at \$2.0m. This is considered prudent given the level of sales currently being generated and reflects the fact that the factory would take several months to become fully operational.

The turnover for the year to 31 January 1997 is projected at \$3.4m reflecting the factory becoming fully operational for the complete year. The turnover is then forecast to increase at 30% p.a. - considered to be very prudent given the size of the market.

The gross profit margin in the forecasts of 35% is prudently based upon the margin currently being achieved on the products manufactured in the UK.

The forecasts operating expenses for the year ended 31 January 1996 is based upon the current level of expenses incurred in the UK adjusted for the anticipated number of staff employed. The operating expenses are then forecast to increase by 10% p.a. to allow for the increase in the level of business.

A summary of the capital expenditure f recast is as follows:

	<u>Years ended 31 January</u>				
	1996	1997	1998	1999	2000
	\$000	\$000	\$000	\$000	\$000
Vehicles	0	40	0	0	0
Office Equipment	30	30	50	30	30
Plant and Machinery	900	100	150	100	100
Office Furniture	30	15	15	15	15
Computer Equipment	50	15	50	15	15
	<u>1,010</u>	<u>200</u>	<u>265</u>	<u>160</u>	<u>160</u>

An analysis of the capital expenditure on plant and machinery is detailed in Appendix I

Forecast financial position

We attach at Appendices VI and VII the monthly balance sheets for the year ended 31 January 1996 and the yearly balance sheets for the years ended 31 January 2000, respectively.

The summarised financial positions for the five years ended 31 January 2000 are as follows:

	<u>31 January</u>				
	1996	1997	1998	1999	2000
	\$000	\$000	\$000	\$000	\$000
Cash	(8)	29	152	585	1,327
Accounts Receivable	248	280	366	476	618
Inventory	555	700	834	1,010	1,238
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	795	1,009	1,352	2,071	3,183
Property & Equipment	837	819	822	681	510
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	1,632	1,828	2,174	2,752	3,693
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Current Liabilities	239	377	513	661	851
Amount due to holding company	500	500	500	500	500
Long term loan	1,000	1,000	1,000	1,000	1,000
Shareholders equity	(107)	(49)	161	591	1,342
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,632	1,828	2,174	2,752	3,693
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The forecasts show that the company's line of credit requirements peaks at \$50,000 in October 1995. This requirement decreases after this point and the bank balance becomes positive during 1996 and remains positive thereafter.

CAPITAL EXPENDITURE

PLANT	\$000
4M CNC Break Press	160
3M CNC Break Press	130
CNC Punch	150
Guillotine	75
Synergic Welding kits (4 off)	60
Tig Welding Sets (4 off)	30
Saws (3 off)	120
Straight Folder	30
Site Sets (4 off)	10
Rollers 36"	20
Rollers 72"	30
Work Benches & Screens (4 off)	30
Exhaust System for Welding	25
Mill	10
Lathe	10
Forklift	10
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	900
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ASSUMPTIONS UNDERLYING THE PROJECTED PROFIT AND LOSS ACCOUNTS FOR THE FIVE YEARS ENDED 31 JANUARY 2000

1. Turnover for the year ended 31 January 1996 will be \$2.0m. This is based upon the current level of sales being achieved in the US.
2. Turnover for the year ended 31 January 1997 will be \$3.4m. The turnover for the following three years will increase by 30% p.a.
3. The gross margin has been assumed at 35% which is based upon the margin currently being achieved in the UK.
4. Salaries have been based upon the anticipated number of staff required based upon the UK operations.
5. Operating expenses have been based upon the current level of expenses incurred in the UK.
6. Salaries and expenses have been forecast to increase by 10% p.a.
7. Bank interest received has been assumed at 5% p.a. and the long term loan has been assumed at 8% p.a.
8. Depreciation has been provided at 20% (motor vehicles, plant & machinery and computer equipment) and 15% (office equipment and furniture) of cost on a straight line basis.
9. Income tax has been provided at 35% of the profit before tax.

**ASSUMPTIONS UNDERLYING THE PROJECTED CASHFLOW FOR THE FIVE YEARS ENDED
31 JANUARY 2000**

1. It has been assumed that both accounts receivable and accounts payable will be paid in 30 days.
2. It has been assumed that the lead time to convert an order to a despatched sale is 90 days.
3. It has been assumed that a 30% deposit will be received on all orders.
4. Wages and salaries will be paid for in the month in which they are incurred. It has been assumed that all other operating expenses will be paid through accounts payable.
5. Income tax will be paid during the year in which it is incurred.
6. It has been assumed that there will be no capital repayments on the term loan in the first five years.

CAPITAL EXPENDITURE

PLANT	\$000
4M CNC Break Press	160
3M CNC Break Press	130
CNC Punch	150
Guillotine	75
Synergic Welding kits (4 off)	60
Tig Welding Sets (4 off)	30
Saws (3 off)	120
Straight Folder	30
Site Sets (4 off)	10
Rollers 36"	20
Rollers 72"	30
Work Benches & Screens (4 off)	30
Exhaust System for Welding	25
Mill	10
Lathe	10
Forklift	10
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UNITHEM STAINLESS STEEL INC Financial Forecasts for the year ended January 31, 1996

PROFIT AND LOSS ACCOUNT	Feb \$	Mar \$	Apr \$	May \$	June \$	July \$	Aug \$	Sept \$	Oct \$	Nov \$	Dec \$	Jan \$	TOTAL \$
NET SALES	0	0	120,000	150,000	150,000	180,000	200,000	200,000	220,000	240,000	260,000	260,000	1,980,000
Materials	0	0	48,000	60,000	60,000	72,000	80,000	80,000	88,000	96,000	104,000	104,000	792,000
Labour	0	0	30,000	37,500	37,500	45,000	50,000	50,000	55,000	60,000	65,000	65,000	495,000
COST OF SALES	0	0	78,000	97,500	97,500	117,000	130,000	130,000	143,000	156,000	169,000	169,000	1,287,000
GROSS PROFIT	0	0	42,000	52,500	52,500	63,000	70,000	70,000	77,000	84,000	91,000	91,000	693,000
GP %	ERR	ERR	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Depreciation	11,533	11,533	11,533	11,533	11,533	16,533	16,533	16,533	16,533	16,533	16,533	16,533	173,400
Other operating expenses	46,000	46,000	46,000	46,000	46,000	50,167	55,667	55,667	55,667	55,667	59,833	59,833	622,500
OPERATING INCOME	(57,533)	(57,533)	(15,533)	(5,033)	(5,033)	(3,700)	(2,200)	(2,200)	4,800	11,800	16,633	16,633	(102,900)
Other income (expense)	0	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous income	1,042	1,004	472	59	(33)	(62)	(141)	(186)	(182)	(207)	(196)	(158)	1,414
Bent interest	0	(4,667)	(4,667)	(4,667)	(4,667)	(4,667)	(6,667)	(6,667)	(6,667)	(6,667)	(6,667)	(6,667)	(63,333)
Term loan interest													
INCOME BEFORE INCOME TAXES	(56,492)	(61,196)	(19,728)	(9,641)	(9,733)	(8,428)	(9,008)	(9,052)	(2,048)	4,927	7,772	7,808	(164,820)
Provision for income taxes	(19,772)	(21,419)	(6,905)	(3,374)	(3,406)	(2,950)	(3,153)	(3,168)	(717)	1,724	2,720	2,733	(37,667)
NET INCOME	(36,720)	(39,778)	(12,823)	(6,266)	(6,326)	(5,478)	(5,855)	(5,884)	(1,331)	3,202	5,052	5,075	(107,133)
Retained earnings at beginning of period	0	(36,720)	(76,497)	(89,321)	(95,587)	(101,914)	(107,392)	(113,247)	(119,131)	(120,463)	(117,260)	(112,208)	0
RETAINED EARNINGS AT END OF PERIOD	(36,720)	(76,497)	(89,321)	(95,587)	(101,914)	(107,392)	(113,247)	(119,131)	(120,463)	(117,260)	(112,208)	(107,133)	(107,133)

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UNITHERM STAINLESS STEEL INC Financial Forecasts for the year ended January 31, 1996

PROFIT AND LOSS - OPERATING EXPENSES

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Officers salaries	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Admin salaries	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	78,000
Sales salaries	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	87,000
Design salaries	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	55,000
Rent	0	0	0	0	0	0	0	0	0	0	0	0	0
Telephone and utilities	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Office expense	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Postage and delivery	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Repairs and maintenance	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Advertising and promotions	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Exhibitions	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance expense	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Professional fees	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Dues and subscriptions	0	0	0	0	0	0	0	0	0	0	0	0	0
Meals and entertainment	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Travel	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Motor expense	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Miscellaneous expense	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
	46,000	46,000	46,000	46,000	46,000	50,167	55,667	55,667	55,667	55,667	59,833	59,833	622,500

Depreciation - property
 Depreciation - motor vehicles
 Depreciation - office equipment
 Depreciation - plant & machinery
 Depreciation - office furniture
 Depreciation - computer equipment

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Depreciation - property	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation - motor vehicles	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation - office equipment	350	350	350	350	350	350	350	350	350	350	350	350	4,200
Depreciation - plant & machinery	10,000	10,000	10,000	10,000	10,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	155,000
Depreciation - office furniture	350	350	350	350	350	350	350	350	350	350	350	350	4,200
Depreciation - computer equipment	833	833	833	833	833	833	833	833	833	833	833	833	10,000
	11,533	11,533	11,533	11,533	11,533	16,533	16,533	16,533	16,533	16,533	16,533	16,533	173,400

PTO-003948

U-8575

UNITHERM STAINLESS STEEL INC Financial forecasts for the five years ended January 31, 2000

PROFIT AND LOSS ACCOUNT

	1996 \$000	1997 \$000	1998 \$000	1999 \$000	2000 \$000
SALES	1,980	3,366	4,376	5,689	7,395
Materials	792	1,346	1,750	2,275	2,958
Labour	495	842	1,094	1,422	1,849
COST OF SALES	1,207	2,188	2,844	3,698	4,807
GROSS PROFIT	693	1,178	1,532	1,991	2,588
GP %	35.0%	35.0%	35.0%	35.0%	35.0%
Depreciation	173	218	262	301	331
Other operating expenses	623	790	869	956	1,051
OPERATING INCOME	(103)	170	401	734	1,206
Other income (expense)	0	0	0	0	0
Miscellaneous income	1	(0)	1	8	29
Bank interest	(63)	(80)	(80)	(80)	(80)
Term loan interest					
INCOME BEFORE INCOME TAXES	(165)	90	323	662	1,155
Provision for income taxes	(58)	32	113	232	404
NET INCOME	(107)	59	210	430	751
Retained earnings at beginning of period	0	(107)	(49)	161	591
RETAINED EARNINGS AT END OF PERIOD	(107)	(49)	161	591	1,342
Labour	495	842	1,094	1,422	1,849
Salaries	341	480	528	580	638
	836	1,321	1,622	2,002	2,487

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PTO-003949

UNITHERM STAINLESS STEEL INC Financial Forecasts for the five years ended January 31, 2000

PROFIT AND LOSS - OPERATING EXPENSES

	1996 \$000	1997 \$000	1998 \$000	1999 \$000	2000 \$000
Officers salaries	120	132	145	160	176
Admin salaries	78	106	116	128	141
Sales salaries	88	165	182	200	220
Design salaries	55	77	85	93	102
Rent	0	0	0	0	0
Telephone and utilities	54	59	65	72	79
Office expense	24	26	29	32	35
Postage and delivery	18	20	22	24	26
Repairs and maintenance	18	20	22	24	26
Advertising and promotions	12	13	15	16	18
Exhibitions					
Insurance expense	24	26	29	32	35
Professional fees	18	20	22	24	26
Dues and subscriptions	0	0	0	0	0
Meals and entertainment	24	26	29	32	35
Travel	42	46	51	56	61
Motor expense	24	26	29	32	35
Miscellaneous expense	24	26	29	32	35
	623	790	869	956	1,051
Depreciation - property	0	0	0	0	0
Depreciation - motor vehicles	0	4	8	8	8
Depreciation - office equipment	4	7	13	19	23
Depreciation - plant & machinery	155	190	215	240	260
Depreciation - office furniture	4	6	8	10	12
Depreciation - computer equipment	10	12	18	25	28
	173	218	262	301	331

PTO-003950

U-8577

UNITHEM STAINLESS STEEL INC Financial Forecasts for the year ended January 31, 1976

CASHFLOW

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
RECEIPTS													
Accounts receivable	36,000	45,000	45,000	138,000	165,000	165,000	192,000	212,000	218,000	232,000	246,000	242,000	1,936,000
Loans	700,000	0	0	0	0	300,000	0	0	0	0	0	0	1,000,000
	736,000	45,000	45,000	138,000	165,000	465,000	192,000	212,000	218,000	232,000	246,000	242,000	2,936,000

PAYMENTS

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Accounts payable	0	117,800	69,800	81,800	89,800	89,800	96,133	101,933	109,933	109,933	109,933	84,267	1,061,133
Wages	0	15,000	33,750	37,500	41,250	47,500	50,000	52,500	57,500	62,500	65,000	65,000	527,500
Sales-tax	22,500	22,500	22,500	22,500	22,500	26,667	32,167	32,167	32,167	32,167	36,333	36,333	340,500
Other expenses	13,700	13,700	13,700	13,700	13,700	15,367	17,567	17,567	17,567	17,567	19,233	19,233	192,600
Income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure	710,000	0	0	0	0	300,000	0	0	0	0	0	0	1,010,000
Interest payable	(1,042)	3,663	4,195	4,607	4,699	4,728	6,808	6,852	6,848	6,873	6,861	6,825	61,920
	745,158	172,663	143,945	160,107	171,949	484,062	202,675	211,019	224,015	229,040	237,361	211,658	3,193,653

NET FLOW

Opening balance	(9,158)	(127,663)	(98,945)	(22,107)	(6,949)	(19,062)	(10,675)	981	(6,015)	2,960	8,639	30,342	(257,653)
	250,000	240,842	113,179	14,233	(7,874)	(14,823)	(33,885)	(44,560)	(43,579)	(49,594)	(46,634)	(37,995)	230,000

CLOSING BALANCE

	240,842	113,179	14,233	(7,874)	(14,823)	(33,885)	(44,560)	(43,579)	(49,594)	(46,634)	(37,995)	(7,633)	(7,653)
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PTO-003951

U-8578

UNITHERM STAINLESS STEEL INC Financial Forecasts for the five years ended January 31, 2000

CASHFLOW	1996 \$000	1997 \$000	1998 \$000	1999 \$000	2000 \$000
RECEIPTS					
Accounts receivable	1,936	3,379	4,365	5,676	7,379
Loans	1,000				
	2,936	3,379	4,365	5,676	7,379
PAYMENTS					
Accounts payable	1,061	1,810	2,268	2,861	3,628
Wages	528	842	1,094	1,422	1,849
Salaries	341	315	346	381	419
Other expenses	193	95	105	115	126
Income taxes	0	0	87	232	404
Capital expenditure	1,010	200	265	160	160
Interest payable	62	80	79	72	51
	3,194	3,362	4,243	5,243	6,637
NET FLOW	(258)	37	122	433	742
Opening balance	250	(8)	29	152	585
CLOSING BALANCE	(8)	29	152	585	1,327

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U-8579

UNITHERM STAINLESS STEEL INC Financial Forecasts for the year ended January 31, 1996

BALANCE SHEET

	Jan 31	Feb 28	Mar 31	Apr 30	May 31	June 30	July 31	Aug 31	Sept 30	Oct 31	Nov 30	Dec 31	Jan 31
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS													
Current assets													
Cash	250,000	240,842	113,179	14,233	(7,874)	(14,823)	(33,885)	(44,560)	(43,579)	(49,594)	(46,634)	(37,995)	(1,000,000)
Accounts receivable	36,000	45,000	45,000	138,000	165,000	165,000	192,000	212,000	218,000	232,000	246,000	262,000	241,000
Inventory	0	108,000	183,000	210,750	230,750	254,500	273,000	289,000	315,500	334,000	344,500	320,500	301,000
Inventory - demo	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	230,000	250,000
Prepaid expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
Total current assets	536,000	643,842	591,179	612,983	637,876	654,677	681,115	706,440	739,921	766,406	793,866	774,505	794,000

Property and equipment

Property	0	0	0	0	0	0	0	0	0	0	0	0	0
Motor vehicles	0	0	0	0	0	0	0	0	0	0	0	0	0
Office equipment	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Plant & machinery	0	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Office furniture	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Computer equipment	0	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total property and equipment	0	710,000	710,000	710,000	710,000	710,000	710,000	710,000	710,000	710,000	710,000	710,000	710,000

Accumulated depreciation

	0	11,533	23,067	34,600	46,133	57,667	76,200	90,733	107,267	123,800	140,333	156,867	173,000
Total property and equipment, net	0	698,467	686,933	675,400	663,867	652,333	635,800	619,267	602,733	586,200	569,667	553,133	536,000

LIABILITIES AND SHAREHOLDER'S EQUITY

Current liabilities	0	117,800	69,800	81,800	89,800	89,800	96,133	101,933	109,933	109,933	109,933	84,267	92,000
Accounts payable	36,000	81,000	126,000	144,000	159,000	174,000	186,000	198,000	216,000	228,000	236,000	216,000	204,000
Payments on account	0	(19,772)	(41,191)	(48,096)	(51,470)	(54,877)	(57,826)	(60,979)	(64,148)	(64,864)	(63,140)	(60,420)	(57,000)
Income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Total current liabilities	36,000	179,028	154,609	177,704	197,330	208,923	224,307	238,954	261,786	273,069	280,793	239,647	238,000

Long term debt

Bank loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Due to holding company	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Long term loan	0	700,000	700,000	700,000	700,000	700,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total long term debt	500,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000

Shareholder's equity

Common stock	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	0	(36,720)	(76,497)	(89,321)	(95,587)	(101,914)	(107,392)	(113,247)	(119,131)	(120,463)	(117,260)	(112,208)	(107,000)
Total shareholder's equity	0	(36,720)	(76,497)	(89,321)	(95,587)	(101,914)	(107,392)	(113,247)	(119,131)	(120,463)	(117,260)	(112,208)	(107,000)

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UNITHERM STAINLESS STEEL INC Financial Forecasts for the year ended January 31, 1996

PROPERTY AND EQUIPMENT

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Additions at cost													
Property	30,000					300,000							30,000
Motor vehicles	600,000												900,000
Office equipment	30,000												30,000
Plant & machinery													50,000
Office furniture													
Computer equipment													
	710,000	0	0	0	0	300,000	0	0	0	0	0	0	1,010,000

Cumulative costs

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Property	0	0	0	0	0	0	0	0	0	0	0	0	0
Motor vehicles	0	0	0	0	0	0	0	0	0	0	0	0	0
Office equipment	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Plant & machinery	600,000	600,000	600,000	600,000	600,000	900,000	900,000	900,000	900,000	900,000	900,000	900,000	900,000
Office furniture	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Computer equipment	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
	710,000	710,000	710,000	710,000	710,000	1,010,000	1,010,000	1,010,000	1,010,000	1,010,000	1,010,000	1,010,000	1,010,000

Depreciation charge

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
Rate													
20%	0	0	0	0	0	0	0	0	0	0	0	0	0
14%	350	350	350	350	350	350	350	350	350	350	350	350	4,200
20%	10,000	10,000	10,000	10,000	10,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	155,000
14%	350	350	350	350	350	350	350	350	350	350	350	350	4,200
20%	833	833	833	833	833	833	833	833	833	833	833	833	10,000
	11,533	11,533	11,533	11,533	11,533	16,533	16,533	16,533	16,533	16,533	16,533	16,533	173,400

Accumulated depreciation

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Property	0	0	0	0	0	0	0	0	0	0	0	0	0
Motor vehicles	0	0	0	0	0	0	0	0	0	0	0	0	0
Office equipment	350	700	1,050	1,400	1,750	2,100	2,450	2,800	3,150	3,500	3,850	4,200	4,200
Plant & machinery	10,000	20,000	30,000	40,000	50,000	65,000	80,000	95,000	110,000	125,000	140,000	155,000	155,000
Office furniture	350	700	1,050	1,400	1,750	2,100	2,450	2,800	3,150	3,500	3,850	4,200	4,200
Computer equipment	833	1,667	2,500	3,333	4,167	5,000	5,833	6,667	7,500	8,333	9,167	10,000	10,000
	11,533	23,067	34,600	46,133	57,667	74,200	90,733	107,267	123,800	140,333	156,867	173,400	173,400

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PTO-003954

UNITHERM STAINLESS STEEL INC Financial Forecasts for the five years ended January 31, 2000

FINANCIAL FORECAST ASSUMPTIONS

PROFIT AND LOSS ASSUMPTIONS

	1996	1997	1998	1999	2000
Sales growth	0%	70%	30%	30%	30%
Materials as % of Sales	40%	40%	40%	40%	40%
Labour as % of Sales	25%	25%	25%	25%	25%
Operating expense growth	0%	10%	10%	10%	10%
Bank interest rate	5%	5%	5%	5%	5%
Loan interest rate	8%	8%	8%	8%	8%
Income taxes rate	35%	35%	35%	35%	35%

BALANCE SHEET ASSUMPTIONS

	1996	1997	1998	1999	2000
Inventory days	75	75	75	75	75
Accounts receivable days	30	30	30	30	30
Accounts payable days	30	30	30	30	30
Payments on account days	90	90	90	90	90

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UNITHERM STAINLESS STEEL INC Financial Forecasts for the five years ended January 31, 2000

PROPERTY AND EQUIPMENT

	1996 \$000	1997 \$000	1998 \$000	1999 \$000	2000 \$000
Additions at cost					
Property	0	40			
Motor vehicles	0	30	50	30	30
Office equipment	900	100	150	100	100
Plant & machinery	30	15	15	15	15
Office furniture	50	15	50	15	15
Computer equipment					
	1,010	200	265	160	160

Cumulative costs

Property	0	0	0	0	0
Motor vehicles	0	40	40	40	40
Office equipment	30	60	110	140	170
Plant & machinery	900	1,000	1,150	1,250	1,350
Office furniture	30	45	60	75	90
Computer equipment	50	65	115	130	145
	1,010	1,210	1,475	1,635	1,795

Depreciation charge

	Rate	2X	20X	15X	20X	15X	20X
Property	0	0	0	0	0	0	0
Motor vehicles	0	4	8	13	19	8	8
Office equipment	4	7	13	215	240	1	23
Plant & machinery	155	190	8	10	10	12	260
Office furniture	4	6	8	18	25	28	28
Computer equipment	10	12					
	173	218	262	301	331		

Accumulated depreciation

Property	0	0	0	0	0
Motor vehicles	0	4	12	20	28
Office equipment	4	11	24	42	66
Plant & machinery	155	345	560	800	1,060
Office furniture	4	10	18	28	40
Computer equipment	10	22	40	64	92
	173	391	653	954	1,285

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ASSUMPTIONS UNDERLYING THE PROJECTED PROFIT AND LOSS ACCOUNTS FOR THE FIVE YEARS ENDED 31 JANUARY 2000

1. Turnover for the year ended 31 January 1996 will be \$2.0m. This is based upon the current level of sales being achieved in the US.
2. Turnover for the year ended 31 January 1997 will be \$3.4m. The turnover for the following three years will increase by 30% p.a.
3. The gross margin has been assumed at 35% which is based upon the margin currently being achieved in the UK.
4. Salaries have been based upon the anticipated number of staff required based upon the UK operations.
5. Operating expenses have been based upon the current level of expenses incurred in the UK.
6. Salaries and expenses have been forecast to increase by 10% p.a.
7. Bank interest received has been assumed at 5% p.a. and the long term loan has been assumed at 8% p.a.
8. Depreciation has been provided at 20% (motor vehicles, plant & machinery and computer equipment) and 15% (office equipment and furniture) of cost on a straight line basis.
9. Income tax has been provided at 35% of the profit before tax.

**ASSUMPTIONS UNDERLYING THE PROJECTED CASHFLOW FOR THE FIVE YEARS ENDED
31 JANUARY 2000**

1. It has been assumed that both accounts receivable and accounts payable will be paid in 30 days.
2. It has been assumed that the lead time to convert an order to a despatched sale is 90 days.
3. It has been assumed that a 30% deposit will be received on all orders.
4. Wages and salaries will be paid for in the month in which they are incurred. It has been assumed that all other operating expenses will be paid through accounts payable.
5. Income tax will be paid during the year in which it is incurred.
6. It has been assumed that there will be no capital repayments on the term loan in the first five years.

UNITHERM STAINLESS STEEL INC Financial forecasts for the five years ended January 31, 2000

BALANCE SHEET	1996 \$000	1997 \$000	1998 \$000	1999 \$000	2000 \$000
ASSETS					
Current assets					
Cash	(8)	29	152	585	1,327
Accounts receivable	248	280	366	476	618
Inventory	305	450	584	760	988
Inventory - demo	250	250	250	250	250
Prepaid expenses	0				
Total current assets	795	1,009	1,352	2,070	3,183
Property and equipment					
Property	0	0	0	0	0
Motor vehicles	0	40	40	40	40
Office equipment	30	60	110	140	170
Plant & machinery	900	1,000	1,150	1,250	1,350
Office furniture	30	45	60	75	90
Computer equipment	50	65	115	130	145
Accumulated depreciation	1,010	1,210	1,475	1,635	1,795
	173	391	653	954	1,285
	837	819	822	681	510
	1,631	1,828	2,174	2,751	3,692
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities					
Accounts payable	92	154	189	239	303
Payments on account	204	249	324	421	547
Income taxes	(58)	(26)	0	0	0
Other current liabilities	0				
Total current liabilities	239	377	513	660	850
Long term debt					
Bank loan	0	500	500	500	500
due to holding company	1,000	1,000	1,000	1,000	1,000
Long term loan					
Shareholder's equity					
Common stock	0	0	0	0	0
Retained earnings	(107)	(49)	161	591	1,342
	(107)	(49)	161	591	1,342
	1,631	1,828	2,174	2,751	3,692

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